AND
BRIEFS

No. 15-1189

IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF INTEL CORP. AND VIZIO INC. AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

Matthew R. Hulse
INTEL CORPORATION
2200 Mission College Blvd.
Santa Clara, CA 95054

Avraham Schwartz
VIZIO, INC.
39 Tesla
Irvine, CA 92618

Mark S. Davies
Counsel of Record
Thomas M. Bondy
Logan Q. Dwyer
ORRICK, HERRINGTON & SUTCLIFFE LLP
1152 15th Street, N.W.
Washington, DC 20005
(202) 339-8400
mark.davies@orrick.com

Richard F. Martinelli
Rachel Wainer Apter
Elizabeth R. Moulton
ORRICK, HERRINGTON & SUTCLIFFE LLP
51 West 52nd Street
New York, NY 10019

Counsel for Amici Curiae

Library of Congress

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INTEREST OF *AMICI*

Intel Corp. is a world-renowned designer, manufacturer, and seller of microprocessors, communication chips, flash memory products, solid-state drives, and other high technology products and services.[1] VIZIO, Inc. is a leading U.S. consumer electronics company whose products include televisions, displays, and audio equipment. Computers, visual hardware, and other high technology products typically contain numerous components. These components are often designed in one country, manufactured in another, tested and assembled with other components in a third, and then exported as subassemblies or finished products worldwide. Many of these components are protected by U.S. patents.

Amici participate in and rely on a well operating global marketplace. Intel owns and operates manufacturing facilities in the United States, Ireland, Israel, and China. Its multitiered supply chain comprises more than 16,000 suppliers in over 100 countries. Eighty percent of Intel's products are first sold abroad, primarily to original equipment manufacturers and original design manufacturers. So too, VIZIO relies on foreign manufacturers to procure components and assemble VIZIO's complex products. And when buying components, *amici* must be sure

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[1] The parties have consented to the filing of this *amicus* brief. No counsel for a party authored the brief in whole or in part. No party, counsel for a party, or any person other than *amicus* and its counsel made a monetary contribution intended to fund the preparation or submission of this brief.

that they are securing freedom to operate for both themselves and their customers.

At the same time, *amici* rely on carefully assembled patent portfolios to protect their many innovations. "[E]ach Intel microprocessor and chipset practices thousands of individual patents." *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 635 (2008). Between 2007 and 2012, the U.S. Patent and Trademark Office granted Intel 11,328 patents. VIZIO, a much newer company, already owns over 140 patents. High tech companies are consistently among those holding the most U.S. patents. *See, e.g.*, Intellectual Property Owners Association, *2014 Top 300 Patent Owners*, https://www.ipo.org/index.php/publications/top-300-patent-owners/.

Amici thus have a unique perspective on patent law doctrines. As the owners of a large and diverse array of patents, *amici* are acutely sensitive to the important role intellectual property plays in encouraging creativity. And as sellers of innovative products that incorporate hundreds or even thousands of patented technologies, *amici* (and the purchasers of their products) are also potential defendants in patent infringement suits.

With this balanced perspective in mind, *amici* urge the Court to grant review on the two questions presented. *Amici* fully support the Court's patent exhaustion doctrine. The doctrine holds that one authorized sale of a patented good exhausts all of the patent holder's patent rights in that good. The Federal Circuit's en banc decision below announces two unwarranted exceptions to this sound rule. Both

exceptions threaten to cause havoc to the high technology sector and are without legal basis. Further review is warranted.

SUMMARY OF ARGUMENT

I. The Court has repeatedly held that U.S. patent rights are deemed exhausted after the first authorized sale of a patented good. Under this doctrine, once a patent holder chooses to part with title to a patented good, the good is beyond the limits of the patent law. After the authorized sale, the purchaser of the good is free to use or sell it however she chooses.

II. The Court should review the en banc Federal Circuit's decision to reaffirm the rule announced in *Jazz Photo Corp. v. International Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001). Under the Federal Circuit's ruling, a foreign sale of a patented article does *not* exhaust the patentee's U.S. patent rights. That decision poses a serious threat to the global high technology industry. High technology products are often designed in one country, manufactured in another, assembled into finished products in a third, and then shipped around the world. These high technology products include components covered by thousands of different patents. Under the decision below, a U.S. patent owner could sell its technology for use in such a component, and then turn around and sue the end-user for infringement when the finished product is sold in the United States. That provides all the wrong incentives, and is not the law. The decision below also conflicts with more than a century of precedent, which focuses only on *whether*

there has been a sale authorized by the U.S. patent owner, not *where* such a sale occurred. *Boesch v. Graff*, 133 U.S. 697 (1890), is not to the contrary.

III. The Court should also review the Federal Circuit's decision to reaffirm *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992). There, the Federal Circuit held that post-sale restrictions can preclude the operation of patent exhaustion. The basis of the Federal Circuit's decision in *Mallinckrodt*, and the majority's decision below, was the court's belief that a contrary holding would create a "distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product." Pet. App. 26a. That is incorrect. The rule is the same for non-practicing entities and practicing entities alike: A first authorized sale of a patented product exhausts the patent owner's patent rights, whether the sale is made by the patent holder itself or its licensee. *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1938), created no contrary rule for licensees. The majority's decision could allow patent holders to end secondary markets in patented goods or prohibit purchasers from reusing patented goods. This Court's review is urgently needed.

ARGUMENT

I. The Court Has Repeatedly Held That An Authorized Sale Exhausts All Patent Rights.

The Court has long recognized that once a patent holder chooses through an authorized sale to part

with title to an article embodying the patented invention, the patented article is beyond the confines of the patent law, and the purchaser of the article is free to use or sell it however she chooses. The premise of the exhaustion doctrine is the common sense notion that a patentee should not recover multiple rents for the same invention. After a patent holder "has received in the purchase price every benefit of that monopoly which the patent law secures," the patent holder is not entitled to further compensation for the invention. *United States v. Univis Lens Co.*, 316 U.S. 241, 252 (1942).

In 1852, this Court explained that if an inventor chooses to "lawfully sell" a patented machine, "when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1852). The Court has repeatedly reaffirmed this rule. *See, e.g., Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 661 (1895). A patent holder's "monopoly remains so long as he retains the ownership of the patented article. But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *Univis*, 316 U.S. at 250.

The one exception was *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912). *A.B. Dick. Co.* held that reasonable post-sale restrictions that were "not inherently violative of some substantive law" were "valid and enforceable" through the patent law, as long as the purchaser had notice of the restriction when she

purchased the patented article. *Id.* at 26, 31. But *A.B. Dick. Co.* "was short lived"—it was "explicitly overruled" only five years later in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502, 518 (1917). *See Quanta*, 553 U.S. at 626.

This Court has been crystal clear, repeatedly, since. "[O]ne who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no longer applied." *Boston Store v. Am. Gramophone Co.*, 246 U.S. 8, 25 (1918). Similarly, "[i]t is well settled ... that where a patentee makes the patented article, and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights." *United States v. Gen. Elec. Co.*, 272 U.S. 476, 489 (1926). In sum, "[u]nder the doctrine [of patent exhaustion], 'the initial authorized sale of a patented item terminates all patent rights to that item.'" *Bowman v. Monsanto*, 133 S. Ct. 1761, 1766 (2013) (quoting *Quanta*, 553 U.S. at 625).

The patent exhaustion doctrine is derived from the common-law "first sale" rule. The Court recently examined the rule in *Kirtsaeng v. John Wiley & Sons, Inc.*, and emphasized its "impeccable historic pedigree." 133 S. Ct. 1351, 1363 (2013).[2] As Lord Coke

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[2] In *Kirtsaeng*, the Court relied on the common law to support a "non-geographical reading" of 17 U.S.C. § 109(a) of the Copyright Act. The Act authorizes the purchaser "of a particular

explained in the early 17th century, the common law "refus[ed] to permit restraints on the alienation of chattels." *Id.* at 1363. Thus, if a man sold his horse upon the condition that the buyer should not be permitted to re-sell it, "the [condition] is voi[d]," because the man sold his entire interest in the horse, and no longer had any power over it. *Id.* (quoting 1 E. Coke, Institutes of the Laws of England § 360, p. 223 (1628)). As this Court correctly noted in 1917, "[attempting] to place restraints upon [a patented article's] further alienation . . . ha[s] been hateful to the law from Lord Coke's day to ours." *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 500-01 (1917).

Because the Patent Act "is silent" on exhaustion, "it did not alter" this "common-law rule." *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2254 (2011) (Thomas, J., concurring in judgment); *see also Isbrandtsen Co. v. Johnson*, 343 U.S. 779, 783 (1952) ("Statutes which invade the common law . . . are to be read with a presumption favoring the retention of long-established and familiar principles, except when a statutory purpose to the contrary is evident.").

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copy ... lawfully made under this title" to sell or dispose of it "without the authority of the copyright owner." 133 S. Ct. at 1355. Relying on the common-law first sale doctrine, the Court held that "lawfully made under this title" included copyrighted works lawfully made and sold abroad, even under restrictions precluding resale in the United States. *Id.* at 1355-56.

II. The Court Should Review The Federal Circuit's Ruling That An Authorized Foreign Sale Does Not Exhaust U.S. Patent Rights.

The decision below encourages patentees to seek two payments for one invention, contradicting over a century of jurisprudence. The Federal Circuit en banc majority, endorsing the 2001 decision in *Jazz Photo*, held that a foreign sale of a patented article does not exhaust the patentee's U.S. patent rights. Pet. App. 81-82a, 90-92a. If this ruling is allowed to stand, a patentee could sell its patented article for use in a high tech component, and then turn around and sue for infringement when the finished product arrives in the United States.

A. The Federal Circuit's endorsement of *Jazz Photo* presents a particular threat to the technology industry.

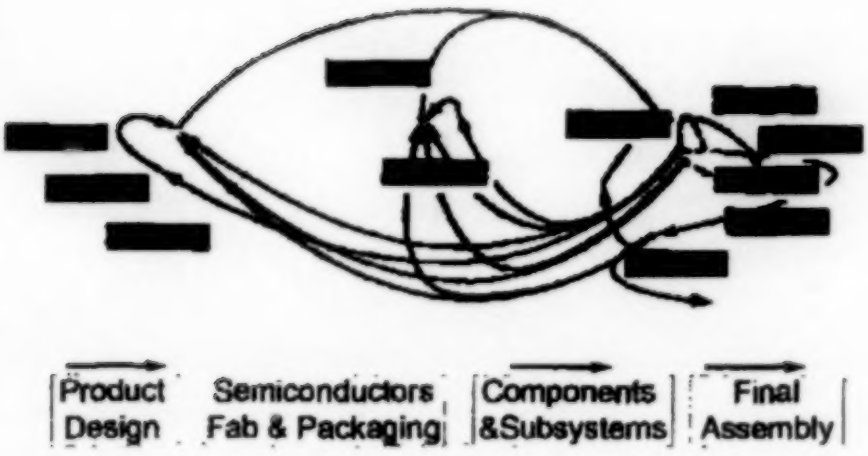
The decision below will have a harmful impact on the global high technology industry, will further encourage patent assertion entities ("PAEs") to seek multiple royalties, and will lead to unwarranted suits against customers. Responding to this argument below, the majority believed there was "no basis for predicting [these] extreme, lop-sided impacts." Pet. App. 60a. But the basis for the anticipated adverse consequences here is even stronger than the grounds the Court relied upon in *Kirtsaeng*. 133 S. Ct. at 1363-65; Pet. App. 131a.

1. The Federal Circuit's holding threatens to have a dramatic impact on the global high tech industry.

The high technology "patent landscape involves products containing a multitude of components, each covered by numerous patents." U.S. Fed. Trade Comm'n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition*, at 55 ("The Evolving IP Marketplace") (March 2011). Not only are many high tech products covered by "thickets" of patents, the number of components and the complexity of the supply chain needed to assemble a finished consumer electronic are astounding. *Id.* at 56. A generic smartphone contains hundreds of different parts made around the world, covered by an estimated 250,000 patents. *See* RPX Corp., Registration Statement (Form S-1), at 59 (Sept. 2, 2011), available at http://tinyurl.com/gnlzbr9; Ian Barker, *The Global Supply Chain Behind the iPhone 6*, betanews (Sept. 23, 2014), http://tinyurl.com/jrsxpxq.

Here is an image of a typical international supply chain for a high technology product:[3]

[3] *See* Mark Zetter, *Economic Drivers, Challenges Creating Regional Electronics Industry*, Venture Outsource, http://tinyurl.com/zokrprg (last visited Apr. 20, 2016).



As this supply chain shows, a product may be designed in the United States, assembled in Singapore from parts made in Costa Rica, Israel, and China, and then shipped to the United States for retail sales. High tech manufacturers thus face an enormous challenge in "trying to identify and clear patent rights due to the large number of patents that cover most IT products," Evolving IP Marketplace at 55, in the international supply chain.

The decision below threatens the expectations of all parties involved in the high tech global supply chain. *Amici* rely on the protection from litigation that should arise from purchasing components from authorized sellers and from entering into worldwide patent licenses. But under the majority's decision, *amici* and their customers can no longer be sure that those protections follow products through to their ultimate destination. Under the decision below, to ascertain patent rights *amici* must review the patent licenses of their entire supply chain to confirm that the licenses explicitly state that their authorized foreign purchases exhaust the U.S. patents. Pet. App.

9a. Putting aside the multitude of agreements that are present in a modern global supply chain, review of suppliers' agreements to confirm foreign exhaustion is effectively impossible because those agreements are typically confidential. *See, e.g.*, John M. Golden, *Principles for Patent Remedies*, 88 Tex. L. Rev. 505, 550 (2010) ("[T]he terms of patent-licensing agreements ... are generally confidential."). The majority's further assertion that customers could rely on implied license, Pet. App. 98a, is even more impractical. The customer would need to review details of the supplier's license (often confidential) to find out if it expressly disclaims an implied license, and would also need to analyze whether it could satisfy the legal criteria of the implied license defense. Ambiguity is inevitable, and that, as practical matter, means a real risk of patent litigation.

2. An additional factor still further magnifies the impact the decision below will have on the high technology community: PAEs. The majority believed that its ruling would not encourage opportunistic suits by PAEs because PAEs "have neither made nor authorized the sale of patent-covered articles." Pet. App. 98a. The majority seriously underestimates the documented resourcefulness of PAEs.

This Court has already taken note of the "industry" that "has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring). Ten years later, there is a growing trend of PAEs acquiring thousands of patents from operating companies, many of which

were previously licensed worldwide to component manufacturers like *amici*. *See* Mark S. Popofsky and Michael D. Laufert, *Patent Assertion Entities and Antitrust: Operating Company Patent Transfers*, The Antitrust Source, at 1, 3 (American Bar Ass'n, 2013).

The PAEs have now begun to target the downstream purchasers of licensed devices. *See, e.g.*, *British Telecomms. PLC v. Coxcom, Inc.*, 9 F. Supp. 3d 423, 434 (D. Del. 2014) (asserting patents licensed to Intel, Cisco, and others against downstream purchaser), vacated following settlement, 2014 WL 1364853 (D. Del. Mar. 7, 2014); *SanDisk Corp. v. Round Rock Research LLC*, No. 11-CV-5243, 2014 WL 2700583 (N.D. Cal. June 13, 2014) (targeting SanDisk, a downstream purchaser of semiconductor memory devices that were subject to worldwide license); *Multimedia Patent Trust v. Apple Inc.*, No. 10-CV-2618, 2012 WL 6863471 (S.D. Cal. Nov. 9, 2012) (relying on *Jazz Photo* to assert patent infringement against customer of a supplier with a worldwide patent license). Moreover, once the patented component has been incorporated into the design of a consumer product, the manufacturer may be unable to replace that component without completely redesigning the entire product. The PAE can therefore extract a higher payment based not on the value of the patented invention but on the cost of redesigning the entire finished product. The Evolving IP Marketplace at 14 ("ex post licensing to manufacturers that sell products developed or obtained independently of the patentee can distort competition in technology markets and deter innovation").

The Federal Circuit en banc majority's endorsement of *Jazz Photo* is good news for PAEs because global manufacturers will find it nearly impossible to determine that their myriad components are authorized for U.S. sale.

3. Just as this Court warned in *Kirtsaeng*, the decision below also invites accidental infringement by consumers and companies. 133 S. Ct. at 1364-67 (giving examples of possible inadvertent copyright infringement by libraries, used book stores, museums, and art dealers). As in *Kirtsaeng*, a consumer who purchases a camera, a new pair of tennis shoes,[4] or even a package of diapers[5] while on a trip abroad could find herself potentially liable for patent infringement upon her return to the United States. At least in *Kirtsaeng*, the possible copyright suits against consumers were hypothetical, 133 S. Ct. at 1366. Not so in the patent context, where patent infringement suits against consumers have become commonplace. *See, e.g., Vermont v. MPHJ Tech. Investments, LLC*, 803 F.3d 635, 639 (Fed. Cir. 2015) (noting patentee's practice of sending demand letters to small businesses to extract licensing fees); Brian J. Love & James C. Yoon, *Expanding Patent Law's*

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[4] The Patent Office has issued 550 patents in classification 36/114 ("Athletic shoe or attachment therefor"), USPTO Patent Full-Text and Image Database, http://tinyurl.com/j63ng3n (last visited April 20, 2016).

[5] The Patent Office has issued 1,114 patents in classification 604/358 ("Absorbent pad for external or internal application and supports therefor (*e.g.*, catamenial devices, diapers, etc.)"), USPTO Patent Full-Text and Image Database, http://tinyurl.com/orwy26y (last visited April 20, 2016).

Customer Suit Exception, 93 B.U. L. Rev. 1605, 1609-10 (2013) (describing "a class of patentees that overwhelmingly acquire old, extremely weak patents and assert them against the numerous, unsophisticated purchasers (rather than manufacturers) of allegedly infringing products in suits that typically settle for less than defendants' anticipated litigation costs.").

B. The Federal Circuit's endorsement of *Jazz Photo* conflicts with Supreme Court precedent, the common law, and the international patent system.

Jazz Photo conflicts with the common-law first sale doctrine. As earlier noted, once a patent holder chooses to part with title through an authorized sale, the good is beyond the limits of patent law, and the purchaser is free to use or sell it however she chooses. *Jazz Photo* is also unsupported by precedent or the international patent law regime.

1. The majority reaffirmed *Jazz Photo*, which in turn purported to rely on *Boesch v. Graff*, 133 U.S. 697 (1890). According to the majority, *Boesch* held that a foreign sale of a patented article *does not* exhaust the patentee's rights under U.S. patent law. Pet. App. 81-82a. The Federal Circuit's understanding of *Boesch* is fundamentally flawed and inconsistent with the case law both before and after *Boesch*.

In addressing the scope of patent exhaustion, courts have drawn no distinction based on *where* a sale occurred; they have asked only *whether* there was a sale authorized by the U.S. patent owner. In *Betts*

v. Willmott, the first case to apply Lord Coke to patent law, Lord Hatherley held that "inasmuch as [the seller] has the right of vending the goods in *France* or *Belgium* or *England*, or in any other quarter of the globe, he transfers with the goods necessarily the license to use them *wherever the purchaser pleases*." [1871] 6 L.R. 239, 245 (Ch. App.) (Eng.) (emphasis added). Similarly, in *Holiday v. Mattheson*, 24 F. 185, 186 (C.C.S.D.N.Y. 1885), the court held that the purchaser "acquire[s] the right of unrestricted ownership in the article he buys as against the vendor" even if the article is purchased abroad.

As in *Holiday*, the determinative issue in *Boesch* was whether the foreign sale was authorized by the U.S. patent holder, not where the authorized sale took place. In *Boesch*, the patentee patented an improvement in lamp burners, both in the United States and in Germany. 133 U.S. at 698-99. Defendants purchased the patented burners in Germany from a person who did not have a license to sell them under the German patent (or U.S. patent), but whose sale was nonetheless authorized under German law because he had already made preparations to manufacture the burners before the application for the German patent had been filed. *Id.* at 701. This Court held the patent not exhausted because the foreign seller *had no authority from the U.S. patentee*, and thus, "purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees." *Id.* at 703.

Courts have consistently recognized that the crucial fact in *Boesch* was that there was no sale

authorized by the U.S. patent holder. In *Curtiss Aeroplane & Motor Corp. v. United Aircraft Engineering Corp.*, for instance, the patent owner manufactured and sold airplanes to the British government in Canada. 266 F. 71, 72-74 (2d Cir. 1920). Defendant purchased the airplanes from the British government in Canada and then sold them in the United States. *Id.* at 74. Yet the court held "the full right to use and sell the article in any and every country" had properly passed to the purchaser, reasoning that "[a]s the plaintiff has already been paid for these aeroplanes the full price it asked, it is no longer concerned about ... whether the article is kept in Canada, or in Great Britain, or in the United States." *Id.* at 78-79.

Courts continued to enforce international exhaustion up until *Jazz Photo*. For example, in *Kabushiki Kaisha Hattori Seiko v. Refac Tech. Dev. Corp.*, the court held that, after a foreign sale by an authorized licensee, "the holder of United States patent rights is barred from preventing resale in the United States or from collecting a royalty when the foreign customer resells the article here." 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988) (citing *Holiday*, 24 F. 185); *see also Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 937-38 (D.N.J. 1983) (prohibiting U.S. patentee from restricting importation after it authorized a foreign sale). Based on its misreading of *Boesch*, the Federal Circuit put an end to this line of cases. Only this Court can correct the ruling.

2. The Federal Circuit's decision also puts U.S. law at odds with the international community, which

continues to move toward international exhaustion.[6] International exhaustion applies between member nations of the European Union. *See* Daniel Erlikhman, *Jazz Photo and the Doctrine of Patent Exhaustion: Implications to TRIPS and International Harmonization of Patent Protection*, 25 Hastings Comm. & Ent. L.J. 307, 328 (2003) (noting the European Court of Justice's "aggressive[]" application of exhaustion between EU members). The Supreme Court of Japan held that overseas sales exhaust domestic Japanese patents in 1997. *Id.* at 325-27. And many countries, including China and India, have already implemented broad international exhaustion by statute. WIPO Committee on Development and Intellectual Property (CDIP), *Patent Related Flexibilities in the Multilateral Legal Framework and Their Legislative Implementation at the National and Regional Levels*, CDIP/5/4, ¶ 58 (Mar. 1, 2010), available at http://tinyurl.com/2fgqm96. The Federal Circuit's rejection of international patent exhaustion is at odds with this emerging international consensus.

In any event, the Federal Circuit's concern that international exhaustion would ignore the "especially territorial" nature of U.S. patent law is misplaced. Pet. App. 86a. The fact that "[o]ur patent system makes no claim to extraterritorial effect" means that U.S. patents do not provide inventors with "*protection* in markets other than those of this country."

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[6] The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) lets each member nation choose whether to adopt international exhaustion. *See* Agreement on Trade-Related Aspects of Intellectual Property Rights art. 6, Apr. 15, 1994, 33 I.L.M. 1197.

Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 523, 531 (1972) (emphasis added). It does not mean that U.S. patents cannot be *exhausted* by international sales. Because international exhaustion does not expand the U.S. patent system's protections outside of the United States, it is wholly consistent with the territorial scope of our patent law. *Cf. Quanta*, 553 U.S. at 632, n.6 (noting that a patent can be practiced, but not infringed, outside the United States).

III. The Court Should Review The Federal Circuit's Ruling That Post-Sale Restrictions May Be Enforced Through Patent Law.

The Court should also review the Federal Circuit's decision to reaffirm *Mallinckrodt*. The en banc majority held that "[a] sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale" does not exhaust the patentee's patent rights, and instead allows the patentee to enforce the post-sale restriction through patent law. The majority believed its holding was necessary to avoid creating a "distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product." Pet. App. 26a. But this concern reflects a basic misunderstanding of this Court's cases. The applicable rule is the same for non-practicing entities and practicing entities alike: The first authorized sale of a patented article exhausts the patent owner's patent rights. The Federal Circuit's contrary conclusion upends settled expectations and could

allow patent holders to end secondary markets in patented goods.

A. The Federal Circuit's endorsement of *Mallinckrodt* would allow patent holders to end secondary markets in patented goods.

The en banc majority found "no proof of a significant problem" arising from "single-use/no-resale restriction[s]." Pet. App. 60a. Instead, the majority believed that no-resale restrictions "can have benefits." *Id.* Customers can pay a lower price in exchange for a no-resale limitation. *Id.* Companies like Lexmark can ensure that "lower quality" replacement cartridges do not harm their reputations, and medical suppliers like Mallinckrodt can avoid the "medical[] harm[]" that could come from reuse of medical devices. *Id.* at 61a.

The problem with the majority's holding is that it is not limited to situations in which a single-use or no-resale limitation appears to make sense to a court. Under the decision below, any patented good could be labeled for "single use only" and any purchaser could be sued for patent infringement when he reuses or resells it. Pet. App. 26a. Indeed, under the Federal Circuit's holding, not only could a patent holder shut down the secondary market in used goods by prohibiting reuse or resale—think used cars—but it also could force customers to repurchase the patented article again and again, rather than reusing it.

An example illustrates the point. The PEZ dispenser was first patented in the United States in

1952. *See* U.S. Pat. No. 2,620,061. Since then, PEZ has marked its dispensers with seven other utility patents on dispenser designs. Under the majority's rule, PEZ could choose to sell its dispensers as "single use only," and sue anyone who reloaded them with candies for patent infringement. PEZ could also use patent law to stop collectors from trading in or reselling dispensers. This is the precise opposite of the long established rule: after an authorized sale, the purchaser of the patented article is free to use it as she wishes. *See* Part I, *supra*.

B. The Federal Circuit's endorsement of *Mallinckrodt* is wrong because exhaustion applies identically to practicing-entity patentees and non-practicing-entity patentees.

For 160 years, this Court has held that once a patent holder chooses to part with title through an authorized sale, the patented good is beyond the limits of patent law, and the purchaser is free to use or sell it however she wishes. *See* Part I, *supra*. The majority dispensed with this Court's long established precedent on the theory that it creates a "distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product." Pet. App. 26a. The majority was wrong—there is no distinction in this Court's exhaustion doctrine between the patent rights of practicing-entity patentees and non-practicing-entity patentees.

According to the majority, there was "no basis in the policy of the patent statute," and "[n]o Supreme Court decision," that required it to "draw a sharp line between practicing-entity patentees (those who themselves make and sell the articles at issue) and non-practicing-entity patentees (those who do not)," or to give non-practicing entities "greater power to maintain their patent rights than practicing entities." Pet. App. 45a, 49a; *see also, e.g.*, Pet. App. 30a, 32a, 34a, 37a (discussing purported patentee-sale/licensee-sale distinction). Exactly so: the exhaustion doctrine applies to all. Yet, somehow, the majority concluded the opposite.

The foundation of the majority's error was its mistaken belief that had "Lexmark ... granted another firm a nonexclusive license to make and sell Return Program cartridges," rather than selling them with post-sale restrictions itself, "[i]t is undisputed and clear under ... the 1938 decision in *General Talking Pictures* ... that Lexmark would not have exhausted its patent rights in those cartridges, upon the manufacturing licensee's sale (the first sale), if a buyer with knowledge of the restrictions resold or reused them in violation of the restrictions." Pet. App. 26a.

That is neither undisputed nor clear, and *General Talking Pictures* held no such thing. In *General Talking Pictures*, the patent holder granted a nonexclusive license to American Transformer Company to manufacture and sell its patented sound amplifiers only for individual home use, not for commercial use. 304 U.S. at 179-180. Despite the limited license, American Transformer Company

knowingly violated the licensing agreement and sold the amplifiers to a movie company. The Court held that the sales "were outside the scope of [the] license and not under the patent" and thus constituted patent infringement. *Id.* at 180-82.

On rehearing, the Court again held that when the terms of a restricted license are violated *by the licensee*, a sale "outside the scope of the license ... is precisely the same as if no license whatsoever had been granted." 305 U.S. at 127. Thus, although the petition had framed the questions presented as whether, after an authorized sale (a sale "in the ordinary channels of trade"), a patentee could enforce post-sale restrictions through the patent law, the Court held that neither question "should be answered." *Id.* at 125. The amplifiers were not sold "under the patents" and did not pass to the purchaser "in the ordinary channels of trade"—they were sold illegally, in violation of the license. *Id.* The Court specifically noted that it had "no occasion to consider" what the outcome would have been had there been an authorized sale under the license accompanied by a "notice which purports to restrict the use of [the] articles lawfully sold." *Id.* at 127 (internal quotation marks omitted).

General Talking Pictures is thus a case where the patent owner's patent rights were not exhausted *because there was no authorized sale*. It does not hold that where there has been an authorized sale by a licensee, patent rights are still not exhausted, and the patent owner may still use the patent law to enforce

post-sale restrictions against downstream users.[7] To the contrary, the rule is the same regardless of who makes the sale: The first authorized sale exhausts the patent holder's patent rights in the article. Similarly, without an authorized sale, there is no exhaustion.

Thus, a patent holder who manufactures amplifiers may decide the price at which she wishes to sell them and sell only at that price. Similarly, a patent holder who does not manufacture the amplifiers on her own, but who instead chooses to license to another company the right to manufacture and sell them, may set the price at which the licensee may sell the amplifiers, and may enforce the license

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[7] The en banc majority also misunderstood *Motion Picture Patents*. That case held that "the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it." 243 U.S. at 516. The Federal Circuit focused on the word "unconditional," Pet. App. 42a, but this case is not about a "conditional" sale—it is about a "restricted" sale. As used in *Motion Picture Patents* and in other exhaustion cases (*e.g.*, *Mitchell v. Hawley*, 83 U.S. 544, 547 (1873)), a conditional sale was an agreement to sell whereby title would not pass until the performance of a condition precedent. *See, e.g.*, *Harkness v. Russell*, 118 U.S. 663, 666 (1886) (describing a "conditional sale" as an "agreement to sell upon a condition to be performed," in which title would only pass once the condition was performed). It was not every sale subject to a post-sale restriction. That much is clear from the pertinent sentence in *Motion Picture Patents* itself, which explains that an "unconditional sale" renders the patented article "free of every restriction which the vendor may attempt to put upon it." 243 U.S. at 516. If the "restriction which the vendor may attempt to put on" the patented article itself rendered the sale "conditional," the sentence would make no sense.

agreement through the patent law. *See, e.g., Gen. Elec. Co.*, 272 U.S. at 489-90; Mark R. Patterson, *Contractual Expansion of the Scope of Patent Infringement Through Field-of-Use Licensing*, 49 Wm. & Mary L. Rev. 157, 164-65 (2007) ("manufacturing licensees in effect stand in the shoes of the patentee, and imposing use restrictions on them can reasonably be treated as economically equivalent to individual decisions by the patentee itself"). Once there has been an authorized sale by the patentee, or a sale within the scope of the license by the licensee, however, the patent holder may not set the price at which a purchaser may resell the amplifier or attempt to enforce a post-sale restriction through the patent law. *See, e.g., Gen. Elec. Co.*, 272 U.S. at 489; Patterson, *supra*, at 165. The rule is the same in both instances—after one authorized sale, whether by the patentee or the licensee, a patent owner's patent rights are exhausted, and she can no longer control how the patented article is used or resold.

CONCLUSION

For the reasons stated, the Court should grant the petition for certiorari.

Respectfully submitted,

Matthew R. Hulse
INTEL CORPORATION
2200 Mission College Blvd.,
Santa Clara, CA 95054

Avraham Schwartz
VIZIO, INC.
39 Tesla
Irvine, CA 92618

Mark S. Davies
Counsel of Record
Thomas M. Bondy
Logan Q. Dwyer
ORRICK, HERRINGTON & SUTCLIFFE LLP
1152 15th Street, N.W.
Washington, DC 20005
(202) 339-8400
mark.davies@orrick.com

Richard F. Martinelli
Rachel Wainer Apter
Elizabeth R. Moulton
ORRICK, HERRINGTON & SUTCLIFFE LLP
51 West 52nd Street
New York, NY 10019

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